HomeTown Credit Union

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March 8, 2010

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Proposed Regulation 12 CFR Part 704

Dear NCUA Board Members:

I am writing in response to the proposed rule for corporate credit unions. While I agree that some changes need to be made to the regulation regarding capital levels and risk management, I am concerned that the proposed amendments as written will not allow for a viable corporate system. As a member of two corporate credit unions, I would like to see the corporate credit union system remain as a service provider option for natural person credit unions.

Specific areas of the current proposal that could negatively affect a corporate credit union's ability to serve a credit union's needs in a safe and sound manner are as follows:

<u>Corporate Credit Union Capital</u> -
The Reservation of Authority section of the proposed regulation creates ambiguity and uncertainty relating to capital calculation methods and definitions. Arbitrary calculation methods and moving definitions provide members with unnecessary due diligence challenges.

<u>Prompt Corrective Action</u>-
NCUA should not be able to subjectively determine alternative minimum capital standards without a process to overrule such a decision. At minimum, NCUA board approval should be required to reassess capital level requirements or regulatory rating changes at corporate credit unions.

<u>Penalty for Early Withdrawals</u>-
Allowing members to redeem certificates at a gain prior to maturity when such redemption can be facilitated without incurring a financial loss or diminishing the corporate's liquidity position should be allowed by corporates. To prohibit this would reduce term deposits at corporates, reducing liquidity and possibly adding more risk.

<u>Cash Flow Mismatch Sensitivity</u> –
Cash flow mismatch modeling should include perpetual contributed capital as a 20-year liability and non-perpetual contributed capital as a 5-year liability to enable a corporate to use contributed capital in a prudent manner to add value to members over the

long-term. As the proposal is currently written it will not allow corporates to generate sufficient earnings.

Weighted Average Asset Life-
The 2-year WAL limit will limit a corporate's ability to offer term loans and term certificates which will impact their ability to meet members' term funding needs, which in turn impacts the members of natural person credit unions.

Borrowing Limits-
The 10 times capital or 50% of capital and shares limit reduces a corporate's ability to borrow at the very time when borrowing may be most necessary when shares are low. This would dramatically impact term lending to their members.
The 30 day limit on secured borrowings for purposes other than liquidity will further limit a corporate's ability to offer term loans to their members. Secured term borrowing should be allowed beyond 30 days for any purpose using government, government agency and government sponsored enterprise securities to reduce market risk.

Board Representation –
A 6 year term limit restriction would create excessive turnover. A member elected board with deep knowledge of the industry and the institution is in the member credit union's best interest. 9-12 year term limits should be determined by the members. Candidates for the Board should be determined by qualifications needed, rather than by specified positions. For example, representation could be needed with a specialization in finance, accounting, marketing or operations, or leadership may be needed from credit unions of a certain asset size or geographic region. Third party experts in capital markets and risk management should be considered as members on the board.
The indemnity language is fairly broad and exposes volunteer directors to unlimited personal risk, which may dissuade quality leadership from serving on the board.

Legacy Assets –
The proposed regulation needs to address the issue of legacy assets that are creating the instability in the network as a whole. Without resolution to this issue I feel there would be little to no voluntary consolidation or recapitalizing of corporates.

In summary, natural person credit unions are being faced with the difficult decision of deciding if we want to participate and recapitalize in the corporate credit union system. It appears more time is needed to develop the amendments so they allow the corporates that should survive the ability to articulate a business model that delivers value and ensures long term sustainability. I believe NCUA should hire another independent firm to analyze the long term financial viability of the proposed corporate model. It is critical that we get this right for the future success of the credit union industry as a whole.

Sincerely,

Kim Westphal

Kim Westphal
President/CEO
Home Town Federal Credit Union